

Investing through declines

Many investors have been shocked by recent stock market volatility, particularly since memories of the steep 2007–09 decline are still fresh. It’s important to remember that market declines are inevitable and, while it might seem that they are more frequent

nowadays, the period between the 2007–09 decline and the latest downturn — about 15% as of August 19, 2011 — is in line with historical averages, as the chart below shows.

A history of declines (January 1900 – August 2011)

Type of decline	Average frequency ¹	Average length ²
5% or more	About three times a year	47 days
10% or more	About once a year	114 days
15% or more	About once every 2 years	215 days
20% or more	About once every 3.5 years	338 days

Source: The unmanaged Dow Jones Industrial Average.

¹Assumes 50% recovery of lost value except for the two most recent declines. The current market decline may not be over.

²Measures market high to market low.

Past results are not predictive of results in future periods.

“During the four decades I’ve been with the Capital organization, I have seen strong bull markets and tough bear markets, huge gains in a single day and big one-day drops.

Through all the ups and downs, the nation’s economy has expanded, our standard of living has improved, and individuals who stayed invested in a well-diversified portfolio of stocks and bonds were positioned to pursue their long-term goals.”



— Jim Rothenberg, vice chairman, Capital Research and Management Company,SM August 2011

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

The cost of cash

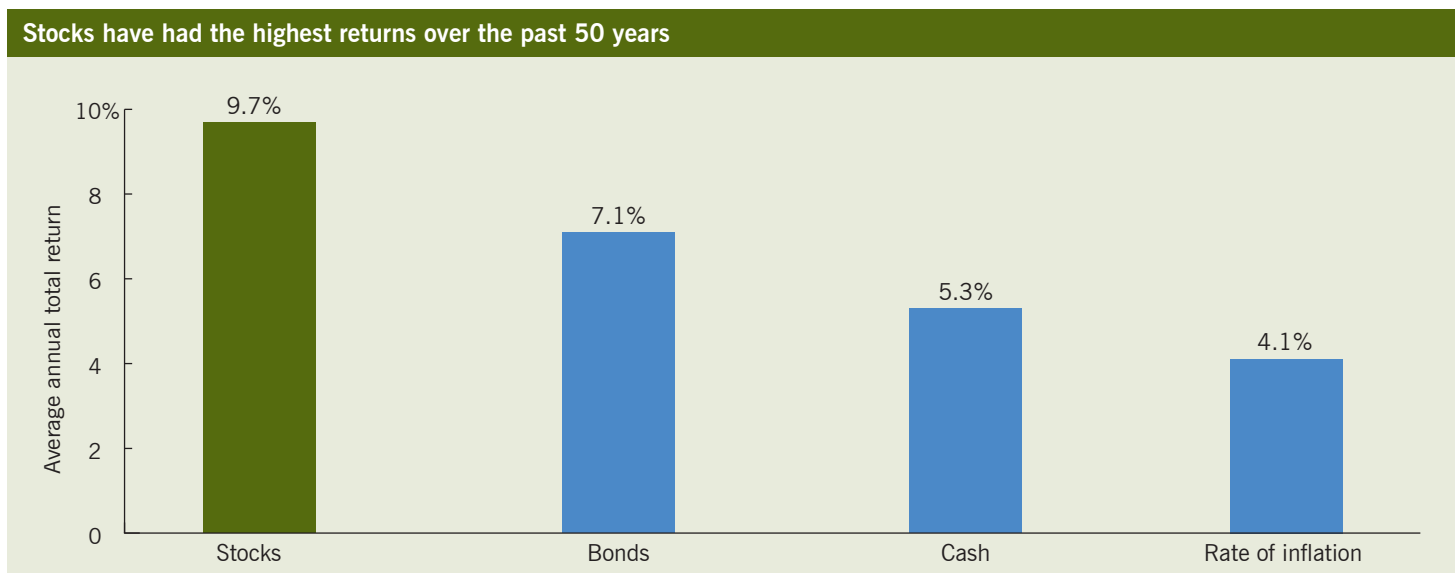
Investors who think staying in cash is the best way to avoid market declines should consider the long-term effect of inflation, which was 3.6% at July 31, as measured by the Consumer Price Index.

How inflation erodes buying power				
Inflation rate	Value of \$100,000 in ...			
	10 years	20 years	30 years	40 years
2%	\$82,035	\$67,297	\$55,207	\$45,289
3	74,409	55,368	41,199	30,656
4	67,556	45,639	30,832	20,829

Staying ahead of inflation

Stocks have provided an effective hedge against inflation over the long term. Some investments, such as bonds, Treasury bills, certificates of deposit (CDs) and savings accounts, historically

have been lower risk but may be more appropriate for short-term savings strategies. Over time, playing it safe could mean settling for a lower return on your investment, as shown in the chart below.



All results calculated with dividends reinvested for the period December 31, 1960, through July 31, 2011. Source: Ibbotson (stocks: Standard & Poor's 500 Composite Index; bonds: U.S. long-term government bonds; cash: 30-day Treasury bills). Indexes are unmanaged and do not reflect the effect of sales charges, commissions, account fees, expenses or taxes. Figures shown are past results and are not predictive of results in future periods. Unlike fund shares, investments in Treasury bills, CDs and savings accounts are guaranteed. Rate of inflation is measured by the Consumer Price Index.

Investors should carefully consider the investment objectives, risks, charges and expenses of the American Funds. This and other important information is contained in each fund's prospectus and summary prospectus, which can be obtained from a financial professional and should be read carefully before investing.

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